

Pragati

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After the bailout

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Nitin Pai
Ravikiran S Rao

Editorial Support

Priya Kadam

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Chaim Jaskoll (Cover Photo)

Contact: pragati@nationalinterest.in

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GLOBAL ECONOMY

Asian growth in an American vacuum

A stronger rupee is the path ahead for India

VANANTHA NAGESWARAN

THE US House of Representatives considered and voted on the Emergency Economic Stabilization Act of 2008—‘Paulson plan’ for short—for the second time in less than a week and approved it with a comfortable majority. It was so keenly anticipated by the financial markets that it was anticlimatic to see US stocks end in negative territory after the legislation was approved. In the larger scheme of things, the Congressional approval of the bill might yet turn out to be inconsequential.

The rejection by the House of Representatives of the legislation in the first vote was not so much a testimony to their lack of understanding of the gravity of the situation as it was a reflection of the poor credibility that the administration and Wall Street carried with the Congress and with the public.

In general, the reason why it has been so difficult for a sovereign government to come to grips with it is that the extent of leverage involved is unprecedented. Also, the leverage is not transparent. It is in contingent liabilities, it is scattered and

it is both off and on the balance sheet.

In this environment, a well-conceived and fair legislation is essential not only to regain the trust of America but also to restore the trust of the world in America. Perhaps, that is still a task left to the new administration and the new Congress. Even so, the road ahead is long and uncharted. America could conceivably spend a good part of a decade trying to repair itself. What can Asian economies do, or what should they do, in such circumstances, not only to sustain economic growth but also to take advantage of the evolving geopolitics? Here is a first and small attempt to pose these questions and provide some pointers under two scenarios.

Scenario 1: The bailout works and borrowing resumes in America

First, let us take the situation that the plan works as intended. For lenders to lend, borrowers must borrow. American households are just now experiencing the devastating impact of excess debt on

the health of their personal finances. Hence, it appears to be a tall order to expect them to continue to borrow. But let us assume that they do so. This would widen the US trade deficit, just as it has begun to come down due to slowing economic growth in the economy.

Twice in the last 25 years—in 1989-91 and 2001—there has been a significant correction in the trade deficit in America. On both occasions, the US dollar strengthened. In 2001, the US dollar strengthened despite a crash in the stock market, terrorist attacks on the United States and a 475 basis point reduction in the federal funds rate.

Now, if the Paulson plan works and if the trade deficit begins to widen, pressure on the US dollar to depreciate would rise. It is trickier to identify the currencies that could appreciate against the US dollar. Eurozone fundamentals are getting bleaker by the day. Eurozone financials appear poised to follow in the footsteps of their American counterparts by disclosing huge losses and seeking either government assistance or merger into some other institution.

If American households continue to borrow, the US dollar has to weaken and the bulk of the burden of its weakness has to be absorbed by Asian currencies, notably China. Their readiness, willingness and capacity are open to question.

Is Asia ready to accept US dollar's weakness?

The dollar has to weaken against Asian currencies. After Europe, Canada and Mexico, America trades heavily with Asia. Which of the currencies in Asia are in a position to absorb the potential weakness of the US dollar?

At this time, the answer points to China, India and Korea. The first two because they are big and because they could potentially grow based on domestic demand. The Korean won appears to be undershooting its fair value by a substantial degree due to the short-term rollover problems faced by its banks.

China is now discovering the pitfalls of its growth model of the last seven years during which its foreign currency reserves rose eleven times from 165 billion at the end of 2000 to over 1.8 trillion by June 2008.

This has come about because of its reliance on export-led growth that required a competitive cur-

rency. In turn, that distorted domestic monetary policy. Interest rates had to be kept low and this has resulted in excessive credit growth and potential non-performing loans in banks' balance-sheets.

If it is impossible to study and understand balance-sheets of American and European banks, it is not hard to appreciate the difficulties of interpreting Chinese banks' strengths and weaknesses. They operate in an authoritarian system, they are heavily state-owned and they have flourished in a period of low interest rates and excessive reserves accumulation. All these suggest a massive expansion of balance sheets. When quantitative expansion of the balance sheets happens, it is hard to maintain quality especially in a non-transparent system.

At the same time, China's foreign currency reserves face huge re-investment risks and exchange rate losses since they are largely kept in US dollars. However, without a substantial revaluation of the Chinese yuan, it would not be possible to steer the economy towards non-inflationary domestic demand-led growth, as monetary policy autonomy would be severely restricted without freeing up the exchange rate first.

Two legitimate questions remain unanswered. One is whether China would revalue the currency at all and second, whether the currency would still be deemed undervalued if its financial system were unstable and weak.

Given its experience with American financial assets, is it even possible for China to continue to grow its reserves when American assets do not yield enough to compensate for their risk. That is the reason why private investors are fleeing American short-term and long-term securities. The official investors—central banks and sovereign wealth funds—can only ignore popular disapproval of their policy choices up to a point. And even if they ignore popular sentiment, they would be inviting the scourge of inflation back with their policy of reserves accumulation and resistance to US dollar weakness.

Data on net foreign purchase of American short-term and long-term securities provided by the US Treasury show that private foreign net flows are negative. In other words, private investors are pulling out. Brad Setser, a fellow for geoeconomics at the Council on Foreign Relations, thinks that the U.S. Treasury data understates official inflows. Put differently, inflows to the US are sustained only by sovereign investors intent on exchange rate management.

Therefore, the conclusion is that if American households continue to borrow, the US dollar has to weaken and the bulk of the burden of its weak-

ness has to be absorbed by Asian currencies, notably China. Their readiness, willingness and capacity are open to question.

To be even blunter, the ongoing credit crisis in the US is as much a test of the American capitalism as it is of Chinese or East Asian mercantilism. How China emerges out of this and in what economic shape would determine if much of the claims made on its behalf by many commentators and observers would come to pass in the 21st century.

Fundamentally stronger case for appreciation of the Indian rupee

India is in a better position to absorb strength of the rupee. Its currency has come under strain because of the rising trade and current account deficit, and withdrawal of foreign portfolio investors from the Indian stock market. First, while the portfolio outflows might continue as long as anxieties over global financial markets remain, the recent drop in oil and fertilizer prices will substantially reduce India's subsidy burden, its fiscal deficit and consequently its current account deficit. Second, India's export sector, though vocal, is relatively smaller. Third, the Reserve Bank of India (RBI) has done an admirable job of ring-fencing the Indian financial system from global troubles with its prudent and proactive oversight and regulation. It would not be an exaggeration to say that it has set a perfect example for central banks all over the world to follow, including those in developed countries.

RBI's upward adjustment of risk weights assigned to bank assets; requirement that banks amortise securitisation profits over the life of the securitised asset (rather than at inception); and conservative accounting practices whereby banks were required to recognize losses but not gains on their assets held for trading or maturity, speak for its intimate understanding of the perils of the so-called financial innovation. It is fair to say that Indian banks have been shielded from global ills despite their best efforts to ape their international counterparts.

Further, given India's slowly improving infrastructure, rising savings rate and improving productivity, its real exchange rate must appreciate over time. It is better for India's policy-makers to accept that appreciation through the nominal appreciation of the rupee than through inflation.

The problem is that it is not even clear if India is thinking along these lines. There is no debate and it is arguably the most important question for the next decade. Exchange rate policy is as much a political decision as it is technical. Whether India wishes to emulate the post-war experience of

Germany and Japan, or that of Italy is a political decision. The first two countries faced steady appreciation pressure on their currencies and yet overcame the costs imposed by appreciating currencies. Italy faced high inflation and high costs because the lira was always weak. India has to make a choice and the choice it makes on the currency regime would dictate and require choices on productivity, technology, innovation and education.

Scenario 2: What if American households decide not to borrow and spend?

Now, let us turn to the other scenario where American households set about repairing their balance sheets. Based on experience, that would be US dollar positive, at least for a while. However, economic growth would come to a standstill. The Federal Reserve would be forced to cut rates aggressively. Further, it would be natural for policy-makers in the United States to turn to external

The Reserve Bank of India has done an admirable job of ring-fencing the Indian financial system from global troubles. It has set an example for central banks all over the world, including those in developed countries.

demand for growth. America played that role when Asia grew its way out of the slump following Asian financial crisis of 1997-98. Asian exports led the recovery with America acting as the buyer of the first resort.

External demand is reasonably and relatively strong only in the developing world. Asia constitutes a huge share of the developing world. Therefore, even from that angle, it is imperative that the US dollar weakens against Asian currencies. The US dollar has not weakened anywhere close to the magnitude that Asian currencies weakened by, in the aftermath of their domestic credit contraction and economic slump in 1997-98.

For America to export its way out of trouble, it is neither necessary nor sufficient for the US dollar to depreciate against European currencies. European nations are hurting equally badly and might also be looking to keep their currencies undervalued. Asian currencies have to strengthen sharply against major currencies.

Asia's ability to meet the challenge is not obvious

Barring a few Asian currencies at most and that too with lot of caveats, the answer is unclear as to which currencies would bear the potential weakness of the US dollar. Like India, East Asian countries have to make a political choice. For long, they are used to free-riding on external demand in the rest of the world. The advent of China and its massive exchange rate depreciation in December 1993 exposed their fragility and they experienced a major economic crisis in 1997-98. After that, they re-

In the last seven years, only two countries—South Korea and Thailand—attempted to boost domestic demand. Both attempts were clumsy and ended up in a debt crisis for households. Most of Asia is feudalistic in nature. Their vast political and institutional underdevelopment supports the feudal structure and, in fact, helps to keep the power balance that way.

Thus far, in the last twenty-five years, American spending habits helped Asia maintain this political order and mercantilist economy. Now, both will be challenged, all because some American borrowers aspired for homes that they could not afford. Such is the nature of the interconnected world.

For India, this is an opportunity to show that it has what it takes to realise its economic power aspirations. India, unlike East Asia, depended not on American demand. Nor has it succumbed to American entreaties on financial capitalism. These are its advantages. But, it has its own issues to consider and at the top of that list is the limitless readiness and willingness of the political class to gorge on taxpayer money, much as Wall Street in America today. Therefore, it is logical that if Wall Street is in crisis, so would India if it continued to walk down the same path.

V Anantha Nageswaran is head, investment research, Bank Julius Baer & Co Ltd in Singapore. These are his personal views and do not represent those of his employer.

The rupee's real exchange rate must appreciate over time. It is better for India's policy-makers to accept that through the nominal appreciation of the rupee than through inflation.

sumed their reliance on external demand even in the presence of China as a big and cost-effective competitor. The rising tide of global growth lifted all boats. Now the tide is receding and is unlikely to re-appear for quite some time. That leaves East Asian countries, including China, with an existential question. For the smaller ones among them, the question is more daunting and urgent.

THE UNITED STATES AND PAKISTAN

Frontline worry in the war on terror

Washington must learn to do without a friendly Pakistani general

NIKOLAS GVOSDEV

LAST YEAR, retired US General Anthony Zinni posed two very tough questions to the American foreign policy establishment when it came to relations with Pakistan. "Has US support for the Pakistani military truly been enough to help it operate in the extremely difficult border environment where US politicians urge it to confront al-Qaeda? Has America's relationship with Pakistan yielded sufficient benefits to persuade the sceptical Pakistani public to support mutual efforts to counter Islamic extremists?"

The former general wrote his essay at a time when there was rising frustration in Washington with the administration of General Pervez Musharraf, who was being faulted on two counts: the first, for a perceived insufficient support of the US mission to combat the Taliban and al-Qaeda elements in Afghanistan and the tribal regions of Pakistan; and for failing to democratise Pakistan and return the country to civilian governance. The solution that the Washington foreign policy establishment seized upon, therefore, was to find a way



to peacefully remove General Musharraf from power. If only the general left office, Americans were told, Pakistan would not only be a "plus" in the column of the freedom agenda (another victory for democracy) but a new civilian government would become a more reliable ally for the United States—able and willing to crack down on extremists and fully support the U.S. agenda for Afghanistan. After all, as the Washington

Post had editorialised, Pakistan's secular politicians stood for "co-operation with the United States" and former Bush speechwriter Michael Gerson, in November 2007, extolled the "responsible senior leaders of the army and well-known democratic leaders" who would keep everything on track if and when Musharraf stepped down. Indeed, many in Washington predicted that a fully restored civilian democratic government would be inclined to expand co-operation with the United States in fighting al-Qaeda and the Taliban.

All of this reflected what Anatol Lieven, a scholar at the New America Foundation, described as the "three interlocking illusions", with the premier one being that "Pakistan can be turned into a fully co-operative and obedient ally in the 'war on terror' and the war in Afghanistan". The others are that the "return of 'democracy' would help to make Pakistan such an ally; that Pakistani society at present is capable of generating and supporting democracy in the Western sense; and that in overall US strategy, it makes sense to subordinate Pakistan to the needs of the war in Afghanistan, rather than the other way round."

But General Zinni's questions have renewed salience today when a new civilian administration in Islamabad and the Pakistani military post-

Musharraf appear no more willing to accommodate US concerns. A change in government has not lead to a change in Pakistan's calculus on the degree to which it should aid or not aid American efforts in the region.

Certainly, the Pakistani government is worried about extremist activity inside of Pakistan, particularly the activities of the Tehrik-e-Taliban-e-Pakistan. And the military will work to prevent such groups from openly seizing power—and fight them when they threaten Pakistani interests. But eradication is only one strategy.

Another is to adopt what Daniel Byman, a scholar at the Brookings Institution, has characterised as the "bus station approach"—encouraging radical elements to leave the country and go elsewhere (See "Rogue Operators", *The National Interest*, July/August 2008). A democratic government in Pakistan finds that its main concern is removing extremists who attack and kill Pakistanis. Whether those extremists are physically eliminated or encouraged to go to Afghanistan or other locales (where, incidentally, they may end up killing Americans) solves the problem, in the short term at least, from the Pakistani perspective. But it does matter a great deal to the US which approach is taken. America's hope that Pakistan post-Musharraf would take a much harder line and seek to eliminate extremism, rather than to negotiate deals with them, appears to have been misplaced.

In addition, the military in a post-Musharraf era seems much less willing to accommodate US concerns. General Ashfaq Parvez Kayani, the Pakistan's army chief, is sending pretty clear signals that, unlike his predecessor, he is not going to

carry Washington's water. In particular is his embrace of the need for democratic legitimacy in justifying any operations with the US, as well as his statements that any solutions to try and stop Pakistan's tribal areas from being used as safe havens for Taliban fighters would need public support.

Indeed, General Kayani's strong position with regard to safeguarding Pakistan's territorial integrity against any and all incursions—including those of US and NATO forces who cross into Pakistani territory while engaging Taliban elements in Afghanistan—has strongly resonated throughout the country. His position was amplified by Major General Athar Abbas, the spokesman for the Pakistani army, prior to the visit made to Pakistan by US Admiral Michael Mullen, the Chairman of the Joint Chiefs of Staff: "We have repeatedly said we will defend our territory and we reserve the right to retaliate in case of any aggression."

General Abbas has also reiterated that the both the new government and the military must now take public opinion into account when assessing

override the civilians—and even appeals to democracy as the justification for its own limits on co-operation with the US mission?

All of the banal rhetoric about how democracies share common interests didn't prepare the US for the simple reality that there are clear limits on what any government in Pakistan is prepared to do to co-operate with the United States, given the feelings of the Pakistani population, their clear ambivalence about US objectives, and their belief that increased co-operation with America will not, to go back to General Zinni's initial observation, yield sufficient benefits for Pakistan.

This is going to put real pressure on American and allied planners. Should the US respect Pakistani sovereignty and put its forces in Afghanistan at risk, by not following militants across the border and not being able to strike targets inside Pakistan, at least not without clear and express Pakistani permission? According to the statement released by the US embassy in Islamabad ("Admiral Mullen reiterated the US commitment to respect Pakistan's sovereignty and to develop further US-Pakistani co-operation") this would appear to be the case. Or is the United States prepared to offer major concessions to Pakistan to secure their co-operation (for instance, a civilian nuclear deal and support for Pakistan's position on Kashmir) that would demonstrate Zinni-style "benefits" to accommodating the United States? Or will Washington, after a time, go back to carrying the fight across the Afghan-Pakistan border if there is no substantial increase in Pakistan's co-operation? Of course, such actions could well end up discrediting the new democratic government in Islamabad.

What is not in the picture is another friendly general who is going to defy either his government or Pakistani public opinion and facilitate US needs. Only when that realisation has sunk in will Washington be able to craft a new strategy.

Nikolas Gvosdev, the former editor of *The National Interest*, is a member of the faculty of the US Naval War College. The views expressed herein are entirely his own, and do not reflect those of the college, the US Navy or the U.S. government.

All of the banal rhetoric about how democracies share common interests didn't prepare the US for the simple reality that there are clear limits on what any government in Pakistan is prepared to do to co-operate with the United States.

the extent to which they can accommodate Washington's preferences. The days where General Musharraf could, to some extent, insulate his co-operation with the US from public scrutiny are over. General Abbas told reporters, "please look at the public reaction to this kind of adventure or incursion. The army is also an extension of the public and you can only satisfy the public when you match your words with your actions."

Washington is now faced with several grave dilemmas. What happens when a democratic government won't endorse its policy objectives? Moreover, what happens when the military won't

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INTERNAL SECURITY

Fewer laws, more efficient enforcement*There are no shortcuts in the battle against terrorists*

RAVIKIRAN S RAO

THERE IS a simple and plausible way to model the fight against terrorism. Combating terrorism is like turning a knob. If we turn it too little, we reduce the risk of harming innocent people, but end up letting free too many terrorists. If we turn it too much, we end up exterminating terrorism, but at the cost of the lives and liberty of many innocent people incorrectly identified as terrorists. How much one wishes to turn the knob is a function of one's own squeamishness about hurting innocent people.

As it happens, the simple and plausible model also turns out to be incorrect. If one turns the knob too much, the result is not only too many false negatives, but also too few true positives. Combatants in the war on terrorism are human beings, motivated by incentives. This model's lacuna is that it does not account for the distortions caused by misalignment of these incentives, as will be clear if one examines the incident of the Sohrabuddin killing.

Sohrabuddin Sheikh—who was allegedly shot in a fake encounter with police near Ahmedabad in November 2005—was almost certainly a murderer, an extortionist, and a burden on society. But it ought to be quite clear by now that he was not a terrorist. There are those who defend killing Sohrabuddin on the grounds that he deserved to die one way or the other. They should pause and reflect on what impact their unabashed cheering will have on Deputy Inspector General DG Vanjara's incentives. Here was a person who did not hesitate to kill one criminal and two innocent people and claim it as a victory against terrorism. In this he had, and continues to have, the full backing of Narendra Modi, Gujarat's chief minister, because the latter knows that the road to electoral victory is paved with victories against terrorism, whether imagined or real. If imagined victories are easier to obtain than the real ones, why will anyone pursue real terrorists?

The rules of evidence, the principle that judges and prosecutors ought to be separate, and the notion that everyone deserves a fair trial, all decrease the chances of consigning innocent people to jail. This is a useful function, valuable in itself. The rules also serve to keep the agents of

the law honest. The requirement that the case against a terrorist be proved in court also will ensure that thorough investigations are carried out to ensure that the accused is really a terrorist. It is puzzling how readily citizens, who deal with corrupt politicians, civil servants and policemen every day of their lives, treat these functionaries as paragons of honesty the moment they think of them as fighting terrorists.

Perhaps, a mental change occurs as soon as the thought of fighting terrorism strikes. In the minds of many people, the battle against terrorism is being fought, not by the aforementioned politicians, civil servants and policemen, but by military and paramilitary forces fighting in hostile terrain against a difficult enemy. Forcing those fine men to be solicitous of human rights is like sending them to battle with one hand tied behind their backs.

The first problem with this is that it does not reflect reality. The bulk of the battle against terrorism will be fought by the beat policeman and the investigating sub-inspector. It is important to provide them with appropriate equipment and support to do their jobs. It is equally important to put in place checks to ensure that the jobs are in fact done; the criminal justice system is a useful check.

The second problem is that while there is a valid argument that the constraints of human rights and the checks imposed by the criminal justice system are too much of a burden in a genuinely warlike situation, it is equally true that prolonged wars do nasty things to soldiers' morale and discipline. A prolonged, debilitating war in hostile terrain will brutalise even the finest of human beings, which is a good reason to keep warlike situations short and rare, and soldiers in the barracks most of the time.

Without doubt, these requirements place onerous demands on policy and policy implementation. India's courts take decades to hand out verdicts, India's police forces are ill-equipped and are long overdue for a skills upgrade. Worse still, they are caught in a three-way conflict over whether to enforce the law, do the bidding of their political masters or line their own pockets. It

is tempting to believe that just giving them a mandate to shoot the terrorists dead is an easy solution to these problems. Sadly, there are no easy solutions, and if these problems are to be fixed, citizens must demand them first.

Sadly, what we are seeing instead is a demand for "stricter" laws. That is a bad idea for more or less the same reasons. Given the number of laws on the books already, most Indians are in violation of at least a few at any point in time. This is a happy situation for policemen who can throw cordons after every outrage, apprehend motorcyclists for not wearing helmets or cybercafe owners with insufficient documentation and claim it

as progress in the investigation. But the unintended consequence of this is an evasive and uncooperative citizenry, which in turn will fuel the police force's demand for stricter laws.

A law-abiding citizenry that is generally on the side of the police is a vital weapon in the fight against terrorism. To construct this weapon, one needs fewer laws, more effective and less arbitrary enforcement. It is difficult to see what the alternatives are.

Ravikiran S Rao is editor of *Pragati* and blogs at *The Examined Life* (ravikiran.com).

INTERNAL SECURITY

Towards a new national anti-terrorism policy

A seven-point programme

NITIN PAI

Start fighting the war of minds

1. Project the war for what it is—that the New Jihadis are against everything that India stands for: freedom, openness, democracy and a tolerant way of life.

2. Assure the nation that we will fight—and win—this war. This will bring fence-sitters onto the side they think that will win. But the assurance must be credible.

Dominate the battle on the ground

3. Connect every *thana*, every *chowki* (and in future every policeman) to a national database and network. Neither a new anti-terror law nor a new anti-terrorism agency is crucial: connect existing intelligence and law-enforcement agencies through a common network.

4. Empower police by implementing police reforms. Use the Supreme Court of India's judgement in *Prakash Singh & Others vs Union of India & Others* to generate momentum. Strengthen police-public partnerships.

5. Move internal security to the Prime Minister's Office. The Prime Minister should chair a

Cabinet Committee on Internal Security; a dedicated internal security advisor should be appointed to act as the point man covering all aspects of internal security.

Engage the nation (don't merely 'secure their approval')

6. Mobilise the nation through a national *satyagraha* against terrorism. Get the grassroots to be uncompromising and unrelenting in the battle against terrorism. Pay special attention to reconciliation and form national integration committees in sensitive areas.

7. Liberalise the economy. Terrorism and dissatisfaction are a direct result of the policies of communal socialism, a form of social license-raj that stifles socio-economic mobility. Economic freedom will lead to economic growth that will undermine the *jihadi* base.

Nitin Pai is editor of *Pragati* and blogs at *The Acorn* (acorn.nationalinterest.in).

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FOREIGN POLICY



The Vajpayee-Manmohan doctrine

The moorings of contemporary Indian foreign policy

DHRUVA JAISHANKAR

CONVENTIONAL WISDOM has it that India lacks a foreign policy strategy or doctrine; that is, some sort of overarching framework within which a set of prioritised foreign policy objectives, widely accepted as being in the national interest, can be accomplished. Several analysts have pointed to parliamentary bickering on issues such as the India-US nuclear agreement, competing visions of the national interest articulated by various political parties, and conflicting statements by senior leaders as evidence of a fractured, disorganised and inchoate foreign policy.

However, many of these perceived shortcomings can be attributed to other factors—India's notorious bureaucratic blocks, widespread political opportunism, and frequently contradictory and ambiguous government rhetoric—rather than actual foreign policy schizophrenia. Moreover, this argument is predicated upon a scarcity of information and derives from taking public statements at face value, rather than a

careful analysis of India's foreign policy track record.

Extrapolating from the Indian government's behaviour, rather than its statements, reveals a starkly different picture. Indian actions over the past decade are demonstrative of a new foreign policy strategy, one that is remarkably resilient, refreshingly free of ideological divisions, and reflective of a clear understanding both of India's national interests and the country's still-limited potential.

Lessons Learnt

It took a 1992 study by American George Tanham, "Indian Strategic Thought: An Interpretive Essay", to expose India's anaemic strategic culture. The "lacunae in strategy and planning" in India, according to Tanham, resulted largely from India's history of disunity and from uniquely Hindu concepts of time and life. At that time of the study's publication, much of Tanham's analysis rang pain-

fully true, and several leading Indian strategic thinkers, including General K Sundarji and K Subrahmanyam, more or less agreed with him. But in the decade following the publication of his study, India also began to experience a radical re-orientation of its foreign policy, a result of seven formative experiences between 1990 and 2002.

First, the withdrawal of the Indian Peace Keeping Force (IPKF) from Sri Lanka in 1990 scarred India's security establishment, making it reluctant to intervene directly in the internal affairs of other states, including its smaller neighbours. The intervention in Sri Lanka found little support within India and many questioned its necessity. The effect proved so traumatic that over a decade later, when Nepal—perhaps the country most socially and economically integrated with India—was afflicted by revolution and violence targeting Indian nationals, there was very little, if any, public debate in favour of military intervention.

Iran has to make up its own mind where it wants to be. The potential of the relationship with Iran can only be realised when when it sets out on a positive internal and external course.

Second, the end of the Cold War and the dissolution of the Soviet Union in 1991 reinforced in India a distrust of alliances, even informal ones. Today India frames its relationships in terms of "strategic partnerships", an empty term connoting serious engagement rather than any form of alliance. According to the Ministry of External Affairs' recent annual reports, India has strategic partnerships with countries as diverse as Japan, Indonesia, Vietnam, Nigeria and Brazil. Yet those same reports make no mention of a strategic partnership with Israel, arguably now India's closest defence collaborator, due primarily to perceived domestic constraints.

Third, economic reforms beginning in 1991 led to India reaping the benefits of a strong economy, and added growth as a vital factor in India's foreign policy. Within a decade, economic development evolved into a significant motivating factor in India's engagement with both Pakistan and China, despite continuing disputes over territory. Economic imperatives were also largely

responsible for India's Look East policy and its development of relations with the United States, Japan and the European Union.

Fourth, India's overt nuclearisation following the Pokhran-II tests of 1998 minimised the possibility of India being forced to give up territory by military means. With security vis-à-vis other states largely guaranteed by the development of a strategic deterrent, national prosperity was also gradually pushed to the forefront as a foreign policy objective.

Fifth, Pakistani aggression at Kargil in 1999, and the overwhelming support the Indian government received domestically and externally, reinforced the political importance of maintaining Indian sovereignty. In addition, US backing led Indian policy-makers to believe that the American-led world order, previously something to be feared, could potentially be amenable to Indian interests and objectives.

Sixth, the rising spectre of religious extremism and separatism, represented by large-scale terrorist attacks and independence movements during the 1990s, caused India to include the defence of secularism and pluralism as a foreign policy consideration. India has since taken steps to counter the spread of Islamic extremism, often in conjunction with like-minded powers, in countries such as Afghanistan. It has also been consistently wary of supporting ethnic-fuelled independence movements, such as those in East Timor, Kosovo and South Ossetia. From India's perspective, these movements represent potentially dangerous precedents.

Finally, Operation Parakram—the border mobilisation against Pakistan in 2002—demonstrated the limited utility of military force in attaining national objectives, especially after the introduction of nuclear weapons into the region. The peace overtures that succeeded Operation Parakram and the apparent unwillingness by the Indian security establishment to operationalise the army's Cold Start doctrine are demonstrative of India's willing subordination of military means to diplomatic endeavours.

It was not until the Pokhran-II tests, six years after Tanham's study, that India witnessed a serious and wide-ranging debate on a comprehensive national strategy for the country. By the time the Communist-backed United Progressive Alliance (UPA) government came into power and attempted to continue where the National Democratic Alliance (NDA) left off in its dealings with other states, India's foreign policy had taken on firm direction, and an awkward period of transition had come to an end.

Competing Visions

The experiences of the last two decades have distilled a set of foreign policy means and objectives which can be gleaned from almost all Indian foreign policy actions, although not always from its rhetoric. These include a prioritisation of the country's economic development, an emphasis on diplomacy, a strict maintenance of Indian sovereignty, a distrust of alliances, a consideration of balances of power, an abstention from direct interference in the internal affairs of other states, and a willingness to bilaterally engage all states, including those with competing interests.

The result is in essence a realist foreign policy, although adapted for the realities of the 21st century and India's particular geopolitical environment. India's policy of minimum credible deterrence, for example, flows directly out of these tenets, as does its military development and its omnidirectional commercial and diplomatic engagement. Undertakings such as the India-US nuclear agreement, the defence relationship with Israel and the composite dialogue with Pakistan are all key aspects of this foreign policy. Several scholars have attempted to describe and label it, using terms such as pragmatism, realism, modernism and neo-liberalism. The dominant framework for India's global interactions since at least 2002 (and arguably since 1998), it can be thought of as the Vajpayee-Manmohan Doctrine.

This formulation of India's foreign policy will likely prove contentious. Some will argue that the UPA leadership deserves all the credit for accelerating India's movement forward despite significant political constraints. Others will contend that the UPA government simply built upon changes effected by the NDA leadership. In fact, several senior officials of both governments—such as Brajesh Mishra, JN Dixit and Shyam Saran—provided significant contributions to the development of this foreign policy doctrine. While there were indeed occasional differences between the two governments in enacting various foreign policies, these were essentially questions of degree.

Both the NDA and the UPA coalitions embraced nuclear minimalism, closer co-operation with the United States, engagement with Pakistan, defence collaboration with Israel and Russia, the Look East policy and South-South co-operation. India's track record compares favourably with most other large democracies in the past decade, including the United States, Germany, France, Australia and Japan, where differences over definitions of the national interest have been significantly deeper in terms of substance as well as rhetoric.

The circumstances in India have always been favourable to the development of a foreign policy doctrine. Most of India's foreign policy is crafted by a few small, overlapping agencies, led by the Prime Minister's Office, the Cabinet Committee on Security and the Ministry of External Affairs. Consisting of career bureaucrats, with politicians forming only the topmost layer, India's foreign policy structure is also relatively devoid of partisanship and prone to continuity. Of course, as can be expected in a healthy democracy such as India's, there are competing visions of India's priorities and objectives.

On the one hand, you have hawkish nationalistic realists who place an emphasis on India's military development and are dismissive of diplomatic and commercial engagement with other states. They frequently ignore economic considerations, the effects of globalisation and the



Photo: Maruthu Pandian

changing nature of power in the international system. At the other end of the spectrum are idealists who prioritise multilateral policies, favour economic autarky, and are desirous of altering the world order rather than working within it. They overlook the benefits of economic development, downplay the difficulties of working against the prevailing world order, and view the world in Manichean blacks and whites.

By neglecting increasingly important economic imperatives, setting unrealistic objectives and regarding the world as essentially hostile, both world-views are ill-equipped for the challenges and opportunities of the 21st century. Moreover, both fringes have little to boast of in terms of political bases, and have even less cachet with the largely self-selecting upper reaches of the bureaucratic hierarchy. While their voices may continue to resonate loudly, and may continue to be used for domestic political purposes, they are

unlikely to significantly influence key policy decisions by governments in power.

Dismantling the Black Box

The development of a foreign policy doctrine is both an ambitious and an accidental process, a slave as much to circumstance as to strategic acumen. The United States, for example, developed the doctrine of containment at the dawn of the Cold War, when its global objectives were clearly defined. After 1991, the United States found itself lacking a single global threat and the Clinton administration's 'enlargement and engagement' and George Bush's 'global war on terror' both failed to adequately replace containment as a doctrine. Today, American strategists are still struggling to craft a workable paradigm for the 21st century.

Conservatives have been attempting unsuccessfully to merge aspects of realism with liberal-democratic idealism. American liberals, meanwhile, are desperately attempting to breathe

it provides India with a little-appreciated ability to rise "under the radar". Other than perhaps Pakistan and China, India's neighbours cannot be said to be hedging against its rise. Contrast this to China, which has states hedging against it all along its periphery. Moreover, several regional actors—particularly in South-East Asia—appear eager to accommodate India and foster its advancement.

Despite these advantages, South Block's approach to articulating and defending its foreign policy remains sadly antiquated. A black box of bureaucrats topped by cagey politicians, India's foreign policy apparatus is a throwback to a time when the bureaucracy and political classes corresponded with India's intellectual elite. It was a time when India could have afforded to craft its foreign policy in a black box, with little outside interest, analysis or criticism.

Today, India is home to a range of extra-governmental actors—journalists, academics, NGOs, advocates and consultants—who have yet to be comfortably incorporated into its policy-making structure. The National Security Advisory Board represents one half-hearted attempt, which while imbued with much capability is also deliberately granted no formal decision-making power. The lack of quality in the Indian academic system is also partly responsible, with scholars rarely able to shape foreign policy in a manner comparable to their Western counterparts.

While there are certainly benefits to not revealing one's intentions, the genesis of the Internet and 24-hour television news channels have exponentially increased the need for the government to articulate and explain policy both to domestic constituents and to the international community. The inarticulateness of official government spokesmen on foreign policy issues, the absence of white papers and the opacity of the government enable a gross misreading of India's intentions and desires. For external actors and analysts, deciphering Indian foreign policy remains a difficult task. Forced conjectures, often deeply misleading, are extracted from bland government statements, annual reports and speeches by senior officials, often meant to assuage critical domestic audiences. India's foreign and security policy structure, despite its successes, has mostly itself to blame for being an easy target for criticism.

India's foreign policy doctrine enables a fluidity that is not always compatible with formal alliance structures, such as those favoured by the United States.

new life into failing international institutions, often too rigid and ill-equipped to deal with many global problems. Both attempt to cling to old alliance structures which are unable to function as they did during the Cold War.

India's first foreign policy strategy was Nehru's non-alignment, which proved suitable for a large but poor country in the context of the early Cold War. Non-alignment gradually gave way after the 1962 war with China to the Indira Doctrine, which emphasised Indian primacy in South Asia through more aggressive bilateral dealings with regional states. The current Vajpayee-Manmohan Doctrine draws upon contributions made by predecessors including PV Narasimha Rao and IK Gujral, but has altered priorities, broadened some tenets, and adapted others for changing circumstances.

The Vajpayee-Manmohan Doctrine is likely to serve India well in the coming decades, enabling a fluidity that is not always compatible with formal alliance structures, such as those favoured by the United States. It is unilateral, premised upon the realities of the rapidly-evolving international system, and calculated to yield long-term benefits. It can be easily defended as beneficial both to India's citizenry and to the world at large. Finally,

Dhruva Jaishankar is Research Assistant in Foreign Policy Studies at the Brookings Institution.

Essential readings of the month

VIJAY VIKRAM

Washington's Pakistan strategy

ASHLEY TELLIS underlines Washington's Pakistan policy dilemma in a recent article in the *International Herald Tribune*. He argues that for America's war against al-Qaeda to be successful, the next administration needs to simultaneously engage with the civilian leadership to bolster Pakistan's democratic institutions whilst maintaining a co-operative relationship with the military establishment to prosecute the war.

However, Washington cannot risk focusing exclusively on either approach. The war on terror necessitates that the US continue to consolidate its relationship with the Pakistani military. But if this relationship is not conducted appropriately it could risk undermining Pakistan's fledgling democracy and strengthen the national security state in Pakistan, which has historically been at the root of the country's problems.

On the other hand, a strategy of emphasising Pakistani civilian supremacy could be counterproductive as America's plans of wiping out al-Qaeda can only come to fruition with the aid of Pakistan's military establishment. Moreover, if President Zardari fails to govern properly, the democratisation approach would backfire spectacularly on the Americans.

Hence, Washington is left with a delicate balancing act that requires it to juggle contradictory strategies of broad-based co-operation with an entity that has consistently undermined Pakistan's democracy whilst working on dismantling Pakistan's atavistic feudal

structures and emphasising civilian aid over military aid.

Significantly though, Dr Tellis argues that the US must assist the Pakistani military in making a conceptual leap in recognising that Pakistan's real enemies lie within and not across the border in India. But, this mindset transformation is a long-term strategy and it is imperative that Washington channels the tired and overextended Pakistani military machine into fighting al-Qaeda now.

Dr Tellis concludes that a patient and long-term American engagement with Pakistan is called for. Pakistan is plagued by massive inflation of food and fuel prices and a worsening fiscal deficit. America needs to play a constructive role in the region by pressing for gradual political reform and private sector economic growth. It is up to the next American President to convince Pakistan that the United States will not neglect them if they are willing to do their part.

Pakistan's westward drift

PERVEZ HOODBHOY, a nuclear physicist at Pakistan's Quaid-e-Azam University writes about the growing arabization of Pakistan in *Himal Southasian*. He argues that this westward drift is not geographical but cultural with Wahhabism—an austere, unyielding version of Islam replacing Sufism the distinctly gentler variety practised on the subcontinent for centuries.

Dr Hoodbhoy goes on to argue that this was a deliberate policy adopted twenty five years ago by the Pakistani government and is driven by a belief that Pakistan must exchange its South Asian

identity for an Arab-Muslim in order to better define itself in contrast to India. For example, prayers in government departments were deemed compulsory and floggings were carried out publicly. In the 21st century however, there is no need for the state to impose strict Islam, as there is a spontaneous groundswell of religious zeal in contemporary Pakistan. The notion of an Islamic state is more popular than ever, as people turn to Islam to rescue a failing state.

Moreover, the Pakistani village has undergone a transformation, thanks in part to the return of Pakistani labourers from Arab countries. Village mosques are now "giant madrassas that propagate hard-line Salafi and Deobandi beliefs through oversized loud-speakers." In fact, Punjabis who tended to be relatively liberal on gender issues are increasingly taking a Talibanesque view on the matter.

However, it is school militarism that emerges as the most significant issue. Dr Hoodbhoy argues that the militancy that bedevils Pakistan's tribal areas as well as its cities as well is a result of an education system that propagates Islam as a complete code of life and is designed to engender a siege mentality in the mind of the child. In fact, a government-approved social studies textbook for Class V students prescribes that the child should "Understand Hindu-Muslim differences and the resultant need for Pakistan".

Dr Hoodbhoy attributes Pakistan's Arabization or "Saudisation" to the Zia regime and the Afghan jihad. With active assistance from Saudi

Arabia, General Zia established a network of over 22,000 madrassas across the length and breadth of Pakistan. It is these madrassas that provided the US-Saudi alliance with willing recruits for the anti-Soviet jihad.

In the end, Pakistan's future will be determined by the ideological and political battle between citizens who want a theocratic state and those who want a modern Islamic republic.

The next chapter

In a recent report titled 'The Next Chapter: The United States and Pakistan', an independent group of experts on US-Pakistan relations state that Pakistan "may be the single greatest challenge facing the next American President", and argue that the United States "cannot afford to see Pakistan fail, nor can it ignore the extremists operating" in the tribal areas. Among others they recommend the following in terms of US assistance:

- Support the performance based, rigorously audited US\$1.5 billion per year in non-military assistance
- Open US markets to Pakistani textiles
- Focus the majority of US economic aid on projects in basic education, health care, water resource management, law enforcement, and justice programs
- Redirect military assistance to bolster counter-insurgency capacity

Vijay Vikram is a student at the School of International Relations, University of St Andrews.

SCIENCE

A new millennium in science

India's scientific output has risen sharply since 2000

CHRISTOPHER KING

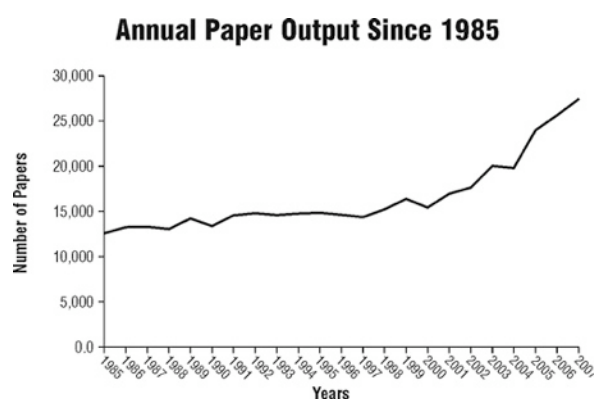
AFTER SEVERAL consecutive years of minimal increase through the 1980s and 90s, India's output of scientific papers has risen sharply since 2000. Concurrently, the citation impact of the nation's published research in main fields has been trending upward in recent years.

To assess India-based science, *Science Watch* turned to the Thomson Reuters database National Science Indicators and its collection of publication and citation statistics. The adjoining chart (top-right) records the number of papers indexed by Thomson Reuters for each year between 1985 and 2007 that listed at least one India-based institution among the author addresses. In 1985, the number was approximately 12,500, and for the next 15 years the total never much exceeded 14,000. Around the year 2000, however, the number began to tick upwards, rising to nearly 17,000 in 2001, reaching 20,000-plus in 2003, and winding up at more than 27,000 in 2007.

Currently, India's largest percent share of any main field indexed by Thomson Reuters is in the Multidisciplinary category (comprising papers published in the multidisciplinary journals such as *Science*, *Nature* and *PNAS*), with 5.47 percent of papers in that field indexed in the cumulative five-year period between 2003 and 2007. Close behind is Materials Science, in which India's 9,212 papers in the last five years constitute 5.45 percent of the field.

Materials Science, in fact, is the field in which India displays the steepest growth in representation during the period covered by National Science Indicators. In 1981, only 432 Thomson Reuters-indexed materials papers included an India institutional address—3.68 percent of the field. In 2007, nearly 2,300 papers with India-based authors were indexed, a share of 6.13 percent.

India's share of world papers, in the latest five-year period, was also comparatively high in Agricultural Sciences (5.17 percent of the database), Chemistry (5.04 percent), and Physics (3.88 percent). Physics, as it happens, features prominently in the next set of charts, which plot the nation's relative citation impact (that is, India's citations-



SOURCE: Thomson Reuters National Science Indicators

per-paper average compared against the world average in each respective field) in 14 main fields in a series of overlapping periods from 1985 through 2007.

In the second chart (see overleaf), which covers the physical sciences, India's upward trend in Physics is clearly discernible. For the latest five-year period, ending in 2007, India's relative-impact score stands at 80 percent of the field average (3.13 cites per paper, versus the world mark of 3.96)—a substantial improvement over the 1985-89 period, when India's relative impact in Physics was at 40 percent, less than half the world average. In the same graph, India's impact in Engineering and in Chemistry are also trending upward and approaching parity with the world mark.

The story is similar in biological, medical and earth sciences: although the impact of India-based research lags the world average in the fields shown, the nation has been on a discernible upswing since roughly the year 2000, with notable gains in, for example, Geosciences, Neurosciences, and Biology & Biochemistry.

For another snapshot of India's current concentration in science, *Science Watch* consulted Thomson Reuters' Essential Science Indicators web resource and its unique database of Research Fronts—speciality areas defined by a "core" of foundational papers that have been frequently cited together by a group of subsequent reports.

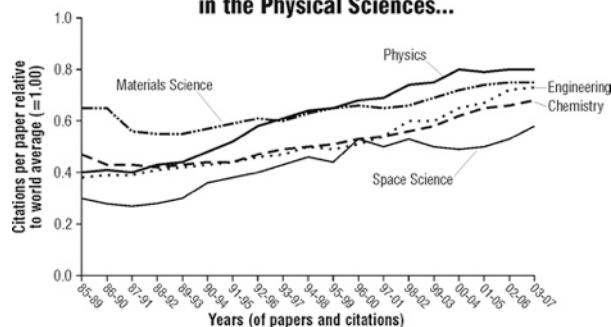
Science Watch identified upwards of 250 research fronts in which India-based institutions fig-

ured among the core literature. The majority of these fronts, conforming to the trends noted above, fall within the physical sciences. As it happens, the research front displaying the highest proportion of Indian institutions among its core papers is devoted to black holes and related aspects involving entropy, supersymmetry, and string theory. An author whose name recurs among the core papers is Ashoke Sen of the Harish-Chandra Research Institute in Allahabad. Dr Sen's name also figures among the core authors in another of the most India-centric fronts—this one devoted to tachyon cosmology.

In sum, all but three of the top ten research fronts with the highest representation of India institutions concern high-energy or theoretical physics. The exceptions are one front dealing with the adsorptive removal of dyes and other hazardous materials from aqueous solutions, another devoted to the study of stress caused by water deficit and salinity in *Catharanthus roseus* and other plants, and a third involving conducting polymers and their use in biosensors.

Still another aspect of India's progression since the early 1980s involves the nation's increasing presence in international science. In 1981, more

Relative Citation Impact of Papers from India, in the Physical Sciences...



than 95 percent of Thomson Reuters-indexed papers from India featured authors exclusively at India-based institutions, with no other nations listed. By 2007, the percentage of "India only" papers had fallen to 80 percent, indicating that, albeit gradually thus far, the nation is moving toward greater participation in world science.

Christopher King is editor of *Science Watch*. Reprinted from *Science Watch* (sciencewatch.com) by permission of Thomson Reuters, Philadelphia, PA, USA.

ECONOMY

An electric imperative

Bringing power sector reforms back onto the national agenda

GULZAR NATARAJAN

ENERGY SECURITY will be the fundamental determinant of both our economic growth and national security in the days ahead. The Planning Commission envisions power shortage as poised to become the single most important infrastructure bottleneck facing India. Acute power shortages and peak-time load reliefs in many states poses a serious threat to achieving the double digit growth rates we aspire to. Securing access to assured oil, gas, thermal and nuclear fuel supplies would be a primary goal of our foreign policy.

The power ministry has set a target of "power for all" by 2012, the achievement of which would entail enhancing power generation from 144 GW to at least 250 GW. The Eleventh Plan power generation target of 78.5 GW is nearly quadrupling the Tenth Plan achievement. The total investment re-

quirement in power sector for the Eleventh Plan is projected at a massive \$170 billion.

The first generation of power sector reforms involved unbundling of the integrated State Electricity Boards (SEBs) and their corporatisation, the setting up of regulatory commissions, and the revival of policy framework for private participation. It is now time for the next generation of reforms: to increase capacity, make transmission efficient and increase service quality and consumer choice.

Power generation

Rapidly growing energy demands require massive expansion of generation capacity. This calls for greater clarity in generation policies, removal of bureaucratic delays, security in fuel and equipment supplies, and expedition of land acquisition



with settlement of related encumbrances.

Awarding of projects should be hastened through standardised bid process management using model bid and contract principles. Environmental and other mandatory clearances can be issued through single window clearance mechanisms. A land acquisition process similar to that being followed by the National Highways Authority of India (NHAI) could be adopted. Project displacement concerns can be mitigated effectively if the rehabilitation and re-settlement of the affected people are done quickly in a fair and transparent manner, minimising the pain associated with dislocation. (See "Reforming land acquisition", by M R Madhavan, *Pragati* Issue 18 - Sep 2008)

Similarly, the process of obtaining commitments and clearances from transmission and distribution companies on Power Purchase Agreements (PPAs) should be fast tracked. All clearances should preferably be sorted through before initiating bidding. This would bring in transparency to the process and create a competitive environment in power generation.

An active power trading market with an open access framework can increase the commercial viability of generation projects. Power purchase commitments from distribution utilities will reduce the cost of capital for investors.

Standardisation of boiler, turbine, and other equipment designs and specifications would enable suppliers to swiftly execute bulk purchase orders and expedite their delivery. The massive expected demand for this equipment should be

leveraged to get foreign firms to transfer technology and set up domestic production facilities, and thereby expand the depth and breadth of the domestic market.

Fuel supplies and financing

The acute coal and natural gas scarcity, especially for the smaller generators, and the inability of state agencies to import adequate quantities of these fuels carries a strong forewarning. Coal powered plants form 53 percent of India's generation capacity and will continue to remain the mainstay of our power generation program for the foreseeable future. The situation is even worse in the supply of natural gas, with only 50 percent of the demand being met and valuable capacity lying idle.

The process of identification and handing over of coal blocks to private companies for captive use will have to be expedited. These blocks should be allocated in a transparent manner, following a tariff-based international competitive bidding, instead of the usual screening committee route. Sunset provisions to revert back the mines will provide incentives for immediate development and prevent hoarding. Given the inevitability of large fuel imports, substantial investments will be necessary in additional port, rail and handling infrastructure.

Besides ramping up domestic coal and gas production, there should be an aggressive policy of acquiring mines and gas fields overseas. Instead of direct purchases from the market, global bilat-

eral commercial fuel supply agreements, which assure long-term supplies, should become the norm.

The huge peak load deficit can be addressed by adoption of an appropriate mix of base-load and peaking load plants. With the overwhelming majority of new generation capacity coming in base-load plants, it may be economically efficient to make small investments to convert the existing hydro-electric power plants to peaking load plants. The large peak deficit also gives impetus to the role of natural gas driven peaking load plants.

India has an estimated hydro-electric power generation capacity of 150 GW, especially from the Himalayan fringes, of which only 35 GW has been realised and another 15 GW are under various stages of development. At least another 100 GW can be generated by tapping water resources in neighbouring countries like Nepal and Bhutan. This can contribute to a major share of future peaking load requirements.

Except for the limited success by a few generation companies in accessing the debt market, transmission and distribution (T&D) utilities have not managed to raise debt successfully from the open market. The availability of easily accessible debt from government backed financial institutions like the Power Finance Corporation (PFC) and the Rural Electrification Corporation (REC) has had the effect of "crowding out" the development of a private debt market. It is therefore important that these institutions confine their activity to financing the smaller and weaker utilities.

Given the excellent commercial potential of merchant power plants, raising funds in the equity markets is an attractive option. However, the equity and especially debt markets alone, with their limited depth and breadth, cannot meet the huge investment needs. It is therefore imperative to have policies tailored to attract foreign direct investment.

Nuclear and alternate sources

Nuclear power forms just over 2 percent of our total power generation and the proposals on the pipeline are expected to add a meagre 3 GW. The India-US nuclear deal and the subsequent removal of restrictions on trade in civilian nuclear components by the Nuclear Suppliers' Group (NSG), comes as a shot in the arm for nuclear power generation. Globally too, faced with high commodity prices and environmental concerns, nuclear power plants, with their low operating costs, have become financially viable.

The huge business opportunity in nuclear capacity addition, estimated at over US\$40 billion,

would be enough to attract global majors like General Electric, Areva, Hitachi and Westinghouse. Collaborating with them will enable technology transfer and facilitate the development of domestic expertise in the private sector, which would be critical to lowering costs and sustaining the program.

The biggest challenge facing the development of our nuclear power generation program is that of sourcing uranium fuel. With scarce domestic sources and access denied by major producers like Australia, even the existing nuclear power plants are running at barely half their capacities. All equipment supplies should be linked with assured fuel supply for the entire plant life or access to captive uranium mines across the globe.

The commercial and political influence of such large companies would facilitate the tie-up of uranium supplies. Given the plentiful domestic thorium reserves, efforts to expedite the development

Massive investments are required in the upgrading and expansion of transmission networks to evacuate electricity from the upcoming plants as well as from surplus to deficit regions.

of the thorium-based fuel cycle should be strengthened. A strong regulatory regime, with specific focus on safety and nuclear waste disposal, will have to be put in place to reassure the significant public safety concerns about nuclear power.

Renewable energy sources like wind, biomass, and solar have enormous potential in India and will become attractive propositions in the coming years as the cost of production declines and as other fuels become expensive.

The government will need to encourage its development with appropriate output-based fiscal incentives (See "The new Manhattan Project", by Atanu Dey, *Pragati* Issue 9 - Dec 2007). With most of the solar and wind power potential areas being located away from load centres, there will have to be substantial investments in transmission capacity to evacuate the power generated.

Transmission and Distribution reforms

Massive investments are required in the upgrading and expansion of transmission networks to evacuate electricity from the upcoming plants as well as

from surplus to deficit regions. A modern and seamlessly integrated national grid, is critical to the functioning of active power trading markets that can ensure optimal utilisation of scarce resources. Allowing for the relative difficulty of managing private ownership of transmission networks, government entities will have to make the bulk of investments, at least for the foreseeable future.

Distribution captures the last mile in the electricity value-chain, and its efficiency is critical to ensure cost recovery and profitability of the entire sector. Unfortunately, it remains the Achilles' heel of India's power sector, with nation-wide Aggregate Technical and Commercial (AT&C) losses at an unacceptably high 34 percent. Rampant power theft, inadequate metering, run-down networks, poor maintenance, accumulating dues, lack of prudent financial management, and government subsidies all contribute to these high losses.

The Accelerated Power Development and Reform Programme (APDRP), with policies promoting loss reduction, have brought to focus the need to reduce AT&C losses to 15 percent by 2012. A judicious mixture of information technology interventions, energy audit, awareness creation, aggressive theft detection and monitoring, coupled with investments in basic repairs and maintenance can contribute significantly towards bringing down these losses.

Distribution offers the full spectrum of opportunities for private participation, from selective distribution franchising to outright privatisation. Given the large legacy systems and political opposition to privatisation, the most prudent way to involve private partners in distribution is the franchisee model. Under this, the state utility transfers the rights to operate and maintain network, supply power, and to bill and collect tariffs in certain circles to private players. This arrangement should be initiated in urban circles initially, since their consumption is high and the benefits of improvement much larger.

The Electricity Act of 2003 took the radical step of providing "open access" to distribution and transmission networks in addition to recognising power trading. However, open access has been constrained by transmission capacity limitations and high surcharges, besides the lack of adequate depth in power trading and competition in distribution. In the initial stages, open access to distribution should be used to expand choice for bulk consumers.

A robust trading regime will require adequate depth of market through increased numbers of sellers and buyers, and quantity traded. The mar-

ket can be deepened by trading a part of the central pool reserves through the exchanges, encouraging more distribution and generation companies to participate, and by promoting the setting up of merchant power plants.

Tariff reforms

India has one of the highest industrial and commercial power tariffs, which adversely affect their global competitiveness. Further, the present tariff arrangement, which does not differentiate between peak and off-peak uses, distorts the incentives for efficient utilisation of power. Given the average national peak load deficit of 16 percent, distribution utilities are forced to purchase power at exorbitantly high rates, thereby placing unsustainable burdens on their already weak finances.

The present arrangement also distorts the incentives for independent power producers who can profit from the high peak-time demand and make handsome profits at the expense of the state utilities and consumers. With the peak hour deficits likely to continue for the foreseeable future, merchant power plants become commercially attractive even with low tariff PPAs.

A floating availability-based tariff regime and a merit order based load dispatch system will go a long way in efficiently allocating power consumption across different categories of consumers. It will help lower tariffs, especially for bulk consumers, and create incentives for reduction in peak power consumption. An active power trading platform, supported by a robust transmission grid and deployment of real-time consumption monitoring technologies will help facilitate implementation of this regime.

Ultimately, all these reforms will become unsustainable and come to naught without political commitment. The wave of free-power induced competitive populism sweeping through many states is the most pernicious manifestation of this danger. States will need to eschew policies that promote moral hazard and prevent cost recovery, and the central government must ensure that they tailor policies accordingly.

There is an urgent need to reform the power sector; as the successful deregulation of telecommunications has shown, tremendous change is possible if given even half-a-decent chance.

Gulzar Natarajan is a civil servant.

REVIEW



American Indians

A review of Vinay Lal's *The Other Indians*

CHANDRAHAS CHOUDHURY

IN THE early pages of Patrick French's recent biography of VS Naipaul, there is a detailed portrait of the first representatives of the modern Indian diaspora in the mid-nineteenth century. These were unwilling travellers: luckless, impoverished indentured labourers, mostly drawn from regions in north India suffering drought or famine, tossed on board ship like chickens in a coop for an arduous journey across the seas to plantations in the West Indies.

From these early beginnings, fraught with dread and uncertainty and beset with dangers to both body and self, the Indian diaspora has come a long way to become "an incontestable fact of world culture", as Vinay Lal puts it in *The Other Indians*, his new history of South Asians in America.

Notwithstanding several other significant narratives of movement and resettlement, the great Indian narrative of migration of our age, and surely for many decades to come, has been the

Review

The Other Indians: A political and cultural history of South Asians in America

by Vinay Lal
Harper Collins India, 176 pages, 2008

journey to America. This migration has a kind of double reality: it as much a dream for millions of what Mr Lal calls Resident Non-Indians (RNIs) as it is a proud fact for actual NRIs. For a long time, before our current period of reverse

migration in modest proportions, America was thought to be the natural destination for our best and brightest, the site where they might break free of the sloth and stasis and crab mentality of benighted Indian life and grow wings.

But one of the tricks of the human brain—it the reason we need history—is that it all too easily extends a present reality back into the past. One of the aims of Mr Lal's book is to show us the stages of negotiation, attrition, and doubt through which Indian life in America has passed in order to reach its present bullish phase. For instance, although educational attainment among Americans of Indian origin is now famously high (63.9 percent now have a bachelor's degree compared to 24.4 percent in the general population), Indians had the

lowest educational standards of any ethnic group as recently as 1940. Even as India made the transition from colony to independent republic, Asians in America were fighting for the most basic political rights (often allying with the African-American movement). Mr Lal's book meticulously charts the progress of Indian life in America from trickle to flood, stammer to swagger.

Indians first began to arrive in America in significant numbers around the close of the nineteenth century. Almost all were male. Some were peasants from Punjab who had been drawn by reports of American prosperity and who found work as farm labourers, others were students. Perhaps the most interesting of these groups was the one with explicit political aims: a set of nationalists and revolutionaries trying to unshackle the British Empire from without by force of both words and militant action. As Lal explains,

By the second decade of the twentieth century, a sufficiently large coterie of cosmopolitan Indian rebels, whose ranks would be swelled and complicated by peasants and workers who had experienced the piercing effects of racial discrimination, felt emboldened enough to initiate a political party to press for Indian independence from British rule. The "Hindi Association of the Pacific Coast" took root in 1913, founded in Oregon, but it is by the name of Ghadr (also Ghadar) that it is commonly known. This "Ghadar Conspiracy" as the British termed it, lasted a mere five years[...] but it is the Ghadr's party newspaper [which had the words "the enemy of the British Raj" emblazoned on its masthead] which most of all suggests why the romance with the Ghadr movement among Indian progressives endures.

...Published at first in Urdu, the predominant language (alongside Hindustani) of north India, and Gurmukhi, the language of Punjabi peasants, Ghadr had within months also commenced publication in Gujarati and Hindi. A contemporary British intelligence report confirmed that some 3,000 copies of the paper at this time were mailed to the Federated Malay States, Siam, and elsewhere in Asia [...].

When one contemplates that nearly 100 years ago an Indian newspaper was being published from the United States in at least four languages...one marvels at the ecumenism, grit, ambition, and vision of the movement's advocates.

One might argue that it was only at a great remove from India that the Ghadrites could entertain...the utopian notion of a mother India that would be freed by militant action. The sociologist Mark Juergensmeyer coined the phrase "Gadar syndrome" to describe the phenomenon of a "militant nationalist movement" created "abroad by expatriates" embodying "the fusion of ethnic anger and nationalist pride"...Useful as are these ideas, they do not entirely capture the globalizing energy of Ghadr, much less the magisterial manner in which the Ghadr movement anticipated the notion of a global Indian diaspora. The Ghadrites,

I am tempted to say after Bruce Chatwin, drew their own songlines across the oceans, and everywhere provided assurance to Indians that Indian-ness was, in some fashion, theirs to claim.

Just before the ascent of the Ghadr party an attractive picture of Indian civilisation had already been imprinted on America by the discourses of Swami Vivekananda, whose electrifying address to delegates of the World Parliament of Religions at Chicago in 1893 catapulted him into the consciousness of the American public. And as the century rolled on India slowly became synonymous in the American imagination with the thought and work of Mahatma Gandhi, who acquired a considerable following among the intelligentsia and members of the press. At the same time Indians in America were fighting a long battle over their right to citizenship that would not be resolved until the passing of the National Origins Act in 1965, which set in place systems and quotas for immigration which are still largely in place today.

Mr Lal has many interesting things to say on a wealth of subjects, from the growth of Hinduism in America to the take-over of the motel business by the Patel community, and from contributions by Indians to American literature to the changing dynamics of the relationship between adopted land and motherland. He notes the pervasive anxiety about cultural loss and contamination among Indian Americans, which has spawned an aggressive and rancorous form of Hinduism that is broadly sympathetic to, and often lavishly funds, the activities of the Bharatiya Janata Party in India and sees nothing wrong in calling itself Hindu nationalist. It is not surprising, observes Mr Lal,

...that, as India slowly begins to emerge as an Asian power, the Hindu community in the United States, which contributes substantially more to direct foreign investment in India than Hindus elsewhere, should begin to feel emboldened, mindful of its "rights" and prerogatives; nor is it surprising that these Hindus should view themselves in the vanguard of what I would characterize as revolutionary internet Hinduism. The internet is not merely the medium through which debates on Hinduness and Hinduism are being conducted, it is the vehicle, nowhere more so than among Indian Americans, for advancing a new conception of Hinduism as a global faith. If internet Hindutva's proponents had their way, Hinduism, or more precisely Hindutva, would have something of an *ummah*, a worldwide community that would also assist in bringing pliant Hindus, both in India and in older Indian diasporas of the nineteenth century, to a awareness of the global strengths of a "modern" Hindu community. [...] Though nationalist Hindus in the United States take recourse to arguments about multiculturalism, they have not at all been hospitable to multiculturalism or even Indian variants of pluralism in India itself.

Indeed, there is material for an entire book in Mr Lal's observation that "Indian culture is perhaps more stable in the US than it is in India". Himself a resident of America for almost three decades (he teaches History at the University of California), Mr Lal has the advantage of being able to draw upon both scholarship and personal experience in this work, and speaks as both observer and participant. He elegantly summarises and brings into the mainstream a wealth of more spe-

cialised literature, such as ethnographies of particular migrant communities (such as the Punjabi-Mexican community in California) and academic monographs. Many Indians at home will savour this book about Indians abroad.

Chandrabhas Choudhury is a freelance writer based in Mumbai and blogs at *The Middle State* (middlestage.blogspot.com).

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Desert Rider, Kutch, Gujarat



Map: Arun Ganesh

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